

City of Mesa
Deferred Compensation Committee
MEETING MINUTES
Monday, February 2, 2015, 11:30am
Mesa City Plaza, Suite 130
Personnel Conference Room 2

Members Present:

Mike Kennington (Chair)
Don Miller
Derek Witting
Frank Hoglund
Mary Dellai
Michele Long
Vicki Eden

Members Absent:

Kimberly Call
Michael Claspell

Innovest:

Gordon Tewell
Rick Rodgers

Great West:

Gary Robison
Lisa Tilley

Other(s):

Bill Taebel
Nikki Rosales

Meeting called to order at 11:30am by Mike Kennington

1. Introductions of new representatives

Rick Rodgers is with Innovest and will join the rotation of staff members that attend our quarterly meetings.

Scott Taylor has taken a promotion out of state. Gary Robison has taken Scott's place as our onsite representative for Empower (formerly Great-West).

2. Approval of the November 3, 2014 minutes

Derek motioned to approve the minutes

Michele seconded the motion

None opposed

3. Innovest Quarterly Update

The Markets

Large cap domestic stocks were the best place to be for the quarter, as well as the year. Developed international stocks and emerging markets both finished with negative returns this quarter and for the year.

Headwinds/Tailwinds

China's industrial production is still positive, but it is slowing at a rapid rate. The European Central Bank will finally begin monetary stimulus in March. Bond yields continue to fall. Consumer spending reached its highest in 7 years. Gas prices have dropped and unemployment is down to 5.6%.

Periodic Table

The periodic table of returns for 2005 to 2014 shows that domestic stocks were a good place to be this past year. Diversified portfolios remain in the middle of the table, indicating that the volatility is low in that area.

Asset Allocation

The total plan grew from \$165 million to \$168 million in the past quarter, which is just shy of a 2% growth.

Table of Returns

Energy and commodities were the drivers of most performance this quarter. Most of the plan's large cap equity funds trailed their benchmarks, but the 1 and 3-year numbers still show a robust market. The committee reviewed Aston Montag & Caldwell last quarter and decided to continue watching the fund's performance. The fund rebounded this quarter, but still trailed its benchmark. Allianz NFJ Dividend Value lagged its benchmark for the quarter and has been doing so for some time. Artisan Mid Cap had a rough year, but long-term numbers still look good. John Hancock stayed away from the bad energy sectors and had a strong quarter on the mid cap equity side. For small cap equities, Cambiar and Kalmar Growth-with-Value had tough quarters and are both on the watch list for performance. Some international managers ended in the negative, but all outperformed their benchmarks. Oppenheimer Global underperformed this quarter, but long-term performance is solid. DFA was negative this quarter, but in line with its index on the emerging market side. PIMCO still underperformed this quarter, but, at the last meeting, was elected by the committee to be replaced. Performance in the Custom Stable Value fund is solid and was above the benchmark, but the environment is still tough, due to interest rates. The target date funds performed well against their peers, but trailed their benchmarks. The model portfolios had difficult performance this year, but the 3-year performance looks good.

Manager Scorecard

	Organization	People	Philosophy & Process	Style Consistency	Asset Base	Performance	Expense	Overall
Aston: M&C Growth						Major concern		Minor concern
Artisan: Mid Cap					Minor concern			
Kalmar: Gro/Val SC						Minor concern		
PIMCO Total Return	Minor concern	Major concern						Minor concern
Voya: Gbl RE	Minor concern					Minor concern		Minor concern

■ Minor concern
■ Major concern

- **Fidelity Contrafund** – minor asset base concern removed
- **Mainstay: Lg Cap Growth** – minor concerns of organization and people removed
- **Mesa/GW Custom Stable Value** – minor concern of philosophy & process removed

Watch List

Watch List Criteria	Aston Montag & Caldwell	Cambiar Small Cap	Kalmar Growth-with-Value Sm Cap	PIMCO Total Return	Voya Global Real Estate
<i>NUMBER OF QUARTERS ON THE WATCH LIST</i>	5>	1	1	4	5>
Changes in Ownership Structure or Material Litigation					
Investment Management Team Changes					
Significant Increase/Decrease in Assets Under Management					
Investment Style Stable/Consistent and Adherence to Investment Guidelines					
Performance In-Line with Expectations					

All shaded boxes indicate a FAIL in that criteria

- **MainStay Large Cap** – removed from the watch list
- **Cambiar Small Cap** – added to the list for Significant Increase/Decrease in Assets Under Management
- **PIMCO Total Return** – added fail for Significant Increase/Decrease in Assets Under Management, but this fund is being removed

4. Large Cap Value Mutual Fund Search

Innovest provided alternative options to the Allianz NFJ Dividend Value fund. The fund is not currently on the watch list, but has underperformed its benchmark for the past few years, so it will show up on the watch list next quarter.

The committee reviewed the pros, cons and consistency counts of the following funds: Diamond Hill Large Cap, MFS Value and Dodge & Cox Stock. The options presented did not seem much greater than Allianz. The committee agreed not to make any changes at this time, particularly since the investment policy statement indicates a fund should be on the watch list, prior to initiating a fund change.

5. Empower Quarterly Update

Fourth Quarter Update for 2014

The new website features a new investment research tool, which is now available to participants. The new tool allows participants to view the details of each fund, such as top holdings and performance managers. Plan assets continue to grow and were at \$165,595,481 at the end of the quarter. The number of plan participants increased slightly, which is good, considering the number of retirements that took place in November. Cash flow is down, but that is likely due to retirements as well. Payroll contributions and incoming rollovers were slightly lower than last quarter, but still strong. Distributions from the plan were average, with 40 new loans issued, 24 full withdrawals from the plan and 1 unforeseeable emergency.

NAGDCA Comparison

Mesa's participation rate and average annual participant contributions are still higher than the 2014 NAGDCA averages for governmental plans. However, Mesa's average account balance is slightly lower than the NAGDCA average account balance.

Investment Advisory Services Usage

The plan offers three levels of investment services: Guidance, Advice and Managed Accounts. There was no change to usage of the advice option, but the managed account usage continues to increase.

Local Education

Scott was available a total of 17 days in Mesa. He held 10 group meetings, 2 educational seminars, 120 individual meetings and 4 new employee orientations.

On the Horizon

The official launch of the Empower name will be rolled out to participants soon.

Open Discussion

Derek indicated that he receives newsletters through the mail, but has never received anything electronically. Lisa explained that they do not have participant e-mails on file, but participants can go online and elect to receive electronic notifications. This option may need to be promoted to participants again. Derek also mentioned it would be valuable to have a deferred comp link on Employee Self Service. Mike will ask about adding that option.

6. 401(a) Plan Option

The Fire Deferred Compensation Plan has been researching a 401(a) option and will be moving forward with one. Mike asked Empower to present this option to the committee to see if it would be worthwhile to add to the city plan. Lisa explained that governmental plans are not eligible for 401(k) plans. In order to have a 401(a) plan, it must be very rigid, as to not look like a 401(k). The benefit of a 401(a) is that the deferral threshold is higher than the 457. However, a 401(a) plan must have strict parameters and the elections made by the participant are irrevocable. When Fire rolls out their plan, existing employees will have 30 days to decide if they want to participate and new employees will have the same amount of time from their hire date. Their plan will offer a tiered structure of deferral percentage options, as well as the choice of deferring unused sick time, at time of retirement. It will allow loans and qualified domestic relation orders, but will not allow hardship withdrawals. It was mentioned that participants can contribute to both the 457 and 401(a) plans, but there is a combined contribution limit of \$56,000.

The committee would like to know what percentage of participants are maxed out on their 457 contributions, before deciding if this would be a benefit to the plan.

7. In-Service Roth Conversions

A Roth option was added to the plan in 2013. Since that time, in-plan Roth transfers have now become an option, whereas previously the law only allowed this if you were eligible for distribution. In-plan Roth transfers allows active participants to transfer pre-taxed funds to a Roth account. The drawback is that the funds transferred would be taxed when you file your next return, not at distribution. If the committee chooses to add this option, participants will need to be educated on the tax risk. At this time, there is a little under \$200k invested in the Roth option that the plan currently offers.

The committee opted to table this option.

8. 2015 Strategic Partnership Plan

Empower discussed the features of our plan and options that can be added. Auto enrollment and auto increase are two features available that we do not have. The committee discussed these options previously and chose not to add them for various reasons. Online enrollment is another feature, but it requires the city to provide non-participant information to Empower, which creates a privacy concern. In general, our plan offers most options available. Lisa reiterated that retirement age has not changed, yet people are living longer and need more money for retirement, so we need to continue to educate and promote savings. Approximately 63% of our participants are getting help or having someone handle their investments, rather than doing it themselves. On the downside, there were a large number of distributions from the plan in 2014. Considerable amounts of rollouts were due to retirements. The city could continue to see an influx in retirements, as baby boomers reach retirement age. Frank indicated that Police is expecting an increase of retirements as well. The plan reached its goals for 2014 and will continue with the same goals for 2015.

9. Upcoming Meetings

Next quarterly meeting will take place on May 4, 2015

10. Meeting Adjourned at 1:30pm